

## RATING ACTION COMMENTARY

# Fitch Affirms BOAD at 'BBB'; Outlook Stable

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Fitch Ratings - Paris - 11 May 2022: Fitch Ratings has affirmed Banque Ouest Africaine de Developpement (BOAD)'s Long-Term Issuer Default Rating (LT IDR) at 'BBB' with a Stable Outlook.

## KEY RATING DRIVERS

**Support-Driven Rating:** BOAD's 'BBB' rating is primarily driven by extraordinary support from its key shareholders, Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO, owning 47% of BOAD's capital) and Cote d'Ivoire (BB-/Stable, 6% of capital). Fitch assesses the capacity of the key shareholders to provide support at 'bbb-', taking into account their average credit quality.

**Exceptional Propensity to Support:** BCEAO's ability to tap the fiscal resources that it manages on behalf of the regional member states to secure payment of capital increases translates into an 'exceptional' propensity of shareholders to support, and a one-notch uplift over the capacity to support, leading to an overall support assessment of 'bbb'. This ability was recently illustrated when BCEAO was able to make the paid-in capital contribution to the bank on behalf of Mali, despite the Malian sovereign being unable to access its assets due to sanctions.

**Rising Risk, Stronger Capital:** Fitch's assessment of BOAD's Standalone Credit Profile (SCP) is 'bb+', unchanged from the previous review, reflecting its solvency assessment of 'bbb+' and a three-notch negative adjustment, resulting from the bank's high-risk business environment. In Fitch's view, BOAD is facing increased credit risk primarily in relation to the recent developments in Mali (12% of loans as of end-2021) but also due

to other regional (such as in Burkina Faso, 12% of the loan book as of end-2021) and global (such as rising commodity prices) developments that could affect BOAD's borrowers' credit quality. However, these risks are offset by the positive impact of the expected issuance of a hybrid instrument, supporting the stable SCP.

**Strong Capitalisation:** Fitch's computed capital metrics, the equity-to-assets and usable capital to risk-weighted assets ratios, were 29% and 27% as of end-2021, respectively. The agency expects the bank will issue a hybrid instrument in 2022, significantly boosting capital. Fitch's projections do not factor any new capital increase despite ongoing discussions on a capital increase.

**Rising Credit Risk:** Fitch has revised credit risk to 'high' from 'moderate'. The sanctions imposed on Mali by the ECOWAS currently prevent the Malian sovereign (8% of the loan book) from servicing its debt to foreign creditors, including BOAD. Fitch's assessment of the average rating of the loan portfolio has declined to 'B-' from 'B' at the previous review, in line with rising credit risk. After accounting for BOAD's preferred creditor status (the bank had only one sovereign default in the past 20 years, Niger in 2000), the average rating of loans is 'B+'.

**NPLs Expected to Rise:** Fitch projects non-performing-loans (NPLs) to increase markedly from 2.9% as of end-2021 as per Fitch's methodology. Fitch expects Mali will resume payments to the bank when the sanctions are lifted, by July 2022. However, arrears to BOAD will have reached six months, which will prompt Fitch to consider the whole exposure as non-performing. Fitch understands that the bank's non-sovereign portfolio in Mali (4% of the loan book) has remained performing so far. However, the economic impact of sanctions in the country poses downside risks to the performance of these exposures.

**'Moderate' Risk Overall:** The bank's top-five largest exposures (all sovereigns) accounted for 48% of total loans as of end-2021. The bank hedges its USD/XOF exchange rate risk (arising from its US dollar Eurobond issuances) with cross-currency swaps. Equity participation was 5% of total banking exposure in 2021. The bank's main capital adequacy metrics are a Basel-type ratio and a leverage limit that caps debt at three times the level of equity.

**Access to Central Bank Refinancing:** Fitch assesses the bank's liquidity at 'a'. The assessment reflects the 'strong' coverage of short-term debt by liquid assets and the bank's proven access to capital markets. Fitch only considers as liquid the deposits held at the regional central bank and regional sovereign debt securities that the bank can refinance with the central bank (after applying a 10% haircut). The liquidity assessment

is enhanced by BOAD's access to the regional central bank's refinancing window, a rare feature for a multilateral development bank.

**High Risk Environment:** BOAD's 'high risk' business environment primarily reflects the low income and high political risks in the countries in which the bank operates, including Togo where the bank's headquarters are located. The assessment also takes into account the exposure to non-sovereign risk (33% of banking exposure at end-2021), the bank's relatively small size and the importance of its public mandate. In recent years, BOAD has been the second most important provider of funds for infrastructure in WAEMU, just behind the World Bank

**Short-Term Rating:** The Short-Term rating of 'F2' is the higher option at the 'BBB' cusp point on Fitch's long-term rating correspondence table. The choice of the higher option results from the bank's liquidity assessment of 'a', which is higher than the level equivalent to the minimum Long-Term rating (BBB+), at which the higher Short-Term rating (F2) would always apply.

## **RATING SENSITIVITIES**

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

**Support (capacity):** A strengthening in Fitch's assessment of BOAD's key shareholders capacity to provide support. This could stem from an improvement in the credit quality of BOAD's key shareholders.

**SCP (solvency):** Material improvement in the bank's solvency assessment. This could result from a combination of stronger capital ratios and significant strengthening in the risk profile, for example, if sanctions on Mali were lifted and the Malian sovereign resumed loan repayments to BOAD, leading to a marked reduction in downside credit risk faced by the bank.

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

**Support (capacity):** A weakening in the support assessment, which would stem from a deterioration in the credit quality of BOAD's main shareholders or a change in the structure of the bank's capital that dilutes the share ownership of BCEAO.

**SCP (solvency):** Deterioration in BOAD's solvency assessment, potentially stemming from a worsening of the bank's credit risk profile or weaker capitalisation and loss absorption capacity in the medium term.

SCP (liquidity): A material deterioration in Fitch's liquidity assessment, which could result from a weakening in the coverage of short-term debt by liquid assets or a weakening in the quality of treasury assets.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

BOAD's 'BBB' rating is primarily driven by extraordinary support from its key shareholders, BCEAO (and Cote d'Ivoire).

## **ESG CONSIDERATIONS**

BOAD has an ESG Relevance Score of '4[+]' for 'Human Rights, Community Relations, Access and Affordability'. BOAD provides concessional loans to its member states funded by concessional resources provided by its shareholders. This supports BOAD's policy importance and shareholders' propensity to support the bank. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

BOAD has an ESG Relevance Score of '4' for 'Governance Structure'. A high share of capital ownership by borrowing countries with weak credit fundamentals and limited access to external funding has led to pressure to increase lending. This risk has been somewhat mitigated by a relatively high share of voting rights held by non-regional members at the board. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

BOAD has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

BOAD has an ESG Relevance Score of '4[+]' for 'Policy Status and Mandate Effectiveness'. BOAD has access to the BCEAO refinancing window. This is a rare feature for supranationals and supports the bank's liquidity profile. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Fitch has changed the ESG Relevance Score assigned to 'Labour Relations and Practices' (SLB) has to '2' from '3', given that restrictions on recruitment based on nationality or quotas is no longer considered to be relevant to multilateral development banks' ratings'

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Banque Ouest Africaine de Developpement	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
	Affirmed			
	ST IDR	F2	Affirmed	F2
senior unsecured	LT	BBB	Affirmed	BBB

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

Supranationals Rating Criteria (pub. 11 Apr 2022) (including rating assumption sensitivity)

## **ADDITIONAL DISCLOSURES**

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## **ENDORSEMENT STATUS**

Banque Ouest Africaine de Developpement

EU Issued, UK Endorsed

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